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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 004249

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DEPT FOR EAP/TC
COMMERCE FOR ITA/MAC/ASIA/MBMORGAN CABLE BOX 4431
USTR FOR WINTER AND WINELAND

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TAGS: [FAIR](#) [ETRD](#) [TW](#)

SUBJECT: CAL PASSES AGAIN ON BOEING LAUNCH CUSTOMER DEAL

REF: TAIPEI 2311

Classified By: AIT Director Douglas H. Paal, Reason 1.4 d

Summary

1. (C) China Airlines has deferred decision on Boeing's offer to sell it up to 24 of its new 747 Advanced model under special terms as a launch customer. Boeing's Taiwan representative blamed lack of focus among the members of the Board of Directors and lack of support from the board's Chairman. The latest developments are changing Boeing's perception of the relative levels of support for Boeing purchases from CAL's Chairman and President. CAL will reconsider such a purchase early next year, but it may not be able to get special terms as a launch customer. End summary.

Positive Recommendation

2. (C) Boeing Commercial Airplane Group Chief Taiwan Representative Paul Fang told AIT/T that Taiwan's China Airlines (CAL) has again deferred decision on the opportunity to be a launch customer for the new Boeing 747 Advanced. Fang had previously explained that Boeing's proposal involved the purchase of as many as 24 aircraft at a special rate. He also emphasized the publicity and prestige associated with being a launch customer.

3. (C) On October 18, Fang reported that CAL's Board of Directors formally considered Boeing's proposal in a meeting three or four weeks ago. According to Fang, who was unwilling to identify his source for information about the meeting, CAL's Corporate Planning Division made a positive presentation based on a thorough study of the proposal. The presentation ended with the recommendation that the board approve a plan to sign a memorandum of understanding with Boeing agreeing to proceed with the deal. Fang, his Boeing colleagues, and their contacts at CAL felt confident the board would approve the recommendation.

Board of Directors Lacks Focus

4. (C) However, Fang said the board was unable to reach a consensus on the issue. He complained that the atmosphere was not conducive to making a decision because the board lacks understanding and focus. According to Fang, many of the board members lack experience or even interest in the aviation industry. He said that when the time came for the board to make a decision, one member suggested waiting to take a look at the airline's entire financial picture. At that moment, the board members looked to Chairman Chiang Yao-chung for direction. In Fang's account, the Chairman did not say anything, and his reaction was interpreted as an indication that he did not support the proposal.

Changing Perceptions of CAL Allies

5. (C) These events have led Boeing to reconsider their assessment of which senior CAL executives most support of Boeing aircraft purchases. Previously, Fang and his colleagues had considered Chiang, with his engineering background, to be a useful ally at CAL. On the other hand, they viewed CAL President Philip Wei as an obstacle. Wei has previously opposed Boeing sales in favor of Airbus and has criticized Boeing products to AIT. However, the positive recommendation from the Corporate Planning Division must have been approved by Wei. Fang is not sure of the depth of Wei's support for this proposal, but the board would have assumed that Wei endorsed it. Chiang's support is even more critical than previously because it appears that he is exercising increasing control of CAL's operations at Wei's expense. Recent personnel changes at the Vice President level (reftel) reflect this change in CAL's power structure.

Next Steps

16. (C) Because the board was unable to reach a definitive decision at the last board meeting, Fang said that the Corporate Planning Division will make another presentation around the Lunar New Year (January 28, 2005). CAL contacts have informed AIT/T that Chiang is currently out of the country, so any prompt action on this deal is out of the question. Boeing has informed CAL that the launch customer deal may not be available if there is further delay, which would mean significantly higher prices. In addition, Boeing will not continue to hold production slots for CAL. Fang said that Boeing is nearing a 747 Advanced launch customer deal with Singapore Airlines that would eliminate the need to keep the offer open for CAL.

PAAL